



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-97665; File No. SR-CboeEDGX-2023-038]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fee Schedule

June 7, 2023.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 1, 2023, Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) proposes to amend its Fee Schedule. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/options/regulation/rule_filings/edgx/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its Fee Schedule, effective June 1, 2023. The Exchange first notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient. More specifically, the Exchange is only one of 16 options venues to which market participants may direct their order flow. Based on publicly available information, no single options exchange has more than 15% [sic] of the market share and currently the Exchange represents only approximately 6% of the market share.³ Thus, in such a low-concentrated and highly competitive market, no single options exchange, including the Exchange, possesses significant pricing power in the execution of option order flow. The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow or discontinue to reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain the Exchange’s transaction fees, and market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

The Exchange’s Fee Schedule sets forth standard rebates and rates applied per contract. For example, the Exchange assesses a fee of \$0.18 per contract for SAM⁴ Contra Non-Customer, Non-Professional orders, yielding fee code SF, and SAM Agency

³ See Cboe Global Markets U.S. Options Market Monthly Volume Summary (May 26, 2023), available at https://markets.cboe.com/us/options/market_statistics/.

⁴ The term “SAM” refers to Solicitation Auction Mechanism.

Non-Customer, Non-Professional orders, yielding fee code SA. The Exchange now proposes to increase the standard fee for both SAM Contra Non-Customer, Non-Professional orders and SAM Agency Non-Customer, Non-Professional orders (i.e., yielding fee codes SF and SA, respectively) from \$0.18 per contract to \$0.20 per contract.

Additionally, the Fee Schedule offers tiered pricing which provides Members⁵ opportunities to qualify for higher rebates or reduced fees where certain volume criteria and thresholds are met. Tiered pricing provides an incremental incentive for Members to strive for higher tier levels, which provides increasingly higher benefits or discounts for satisfying increasingly more stringent criteria.

For example, pursuant to Footnote 7 of the Fee Schedule, the Exchange currently offers three QCC⁶ Initiator/Solicitation Rebate Tiers which provide rebates between \$0.14 and \$0.28 per contract for qualifying QCC Agency Orders or Solicitation Agency Orders where a Member meets incrementally increasing volume thresholds. Particularly, the Exchange will apply the QCC Initiator/Solicitation Rebate to a Member that submits QCC Agency Orders or Solicitation Agency Orders, including a Member who routed orders to the Exchange with a Designated Give Up, when at least one side of the transaction is of Non-Customer, Non-Professional capacity. Fee codes QA,⁷ QM,⁸ QO,⁹ SA,¹⁰ SC,¹¹ and SG¹² qualify for these rebates.¹³ There are two separate rebates that are available under each tier, depending on whether one or both sides of the transaction are of

⁵ See Exchange Rule 1.5(n).

⁶ The term “QCC” refers to Qualified Contingent Cross Orders.

⁷ Fee Code “QA” is appended to QCC Agency (Customer) Orders.

⁸ Fee Code “QM” is appended to QCC Agency (Non-Customer, Non-Professional) Orders.

⁹ Fee Code “QO” is appended to QCC Agency (Professional) orders.

¹⁰ Fee Code “SA” is appended to SAM Agency Non-Customer orders.

¹¹ Fee Code “SC” is appended to SAM Agency (Customer) orders.

¹² Fee Code “SG” is appended to SAM Agency (Professional) orders.

¹³ See Cboe EDGX U.S. Options Exchange Fees Schedule, Footnote 7, QCC Initiator/Solicitation Rebate Tiers.

Non-Customer, Non-Professional capacity. A qualifying order will receive the rebate under “Rebate 1” if one side of the transaction is of Non-Customer, Non-Professional capacity. A qualifying order will receive the rebate under “Rebate 2”, if both sides of the transaction are of Non-Customer, Non-Professional capacity. The volume threshold (per month) for Tier 1 is 0 to 999,999 contracts, for Tier 2 is 1,000,000 to 1,999,999 contracts, for Tier 3 is 2,000,000+ contracts.

The Exchange proposes to amend the QCC Initiator/Solicitation Rebate Tier program by amending current rebates for Tiers 1 through 4 [sic]. Specifically, the Exchange proposes to increase Tier 1 Rebate 1 from \$0.14 to \$0.16, Tier 1 Rebate 2 from \$0.22 to \$0.24, Tier 2 Rebate 1 from \$0.16 to \$0.18, Tier 2 Rebate 2 from \$0.25 to \$0.28, Tier 3 Rebate 1 from \$0.18 to \$0.19, and Tier 3 Rebate 2 from \$0.28 to \$0.30. The volume thresholds for all tiers remain unchanged.

The Exchange believes the proposed rebate structure is competitive with rebates offered at another exchange for similar transactions.¹⁴ Additionally, the proposed changes to the QCC Initiator/Solicitation Rebate Tiers are designed to incentivize Members to grow their QCC Initiator and/or Solicitation order flow to receive the enhanced rebates. The Exchange believes that incentivizing greater QCC Initiator and/or Solicitation order flow would provide more opportunities for participation in QCC trades or in the SAM Auction which increases opportunities for price improvement.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁵

¹⁴ See Box Options Fee Schedule, Section IV(D)(1), which provides rebates ranging from \$0.14 to \$0.17 per contract to the Agency Order where at least one party to the QCC transaction is a Broker-Dealer or Market-Maker (i.e., a non-customer, non-professional) and from \$0.22 to \$0.27 per contract where both parties to the QCC transaction are a Broker-Dealer or Market-Maker.

¹⁵ 15 U.S.C. 78f(b).

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Exchange also believes the proposed rule change is consistent with Section 6(b)(4) of the Act,¹⁸ which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Members and other persons using its facilities.

As described above, the Exchange operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient. The proposed rule change reflects a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange, which the Exchange believes would enhance market quality to the benefit of all market participants. The Exchange is only one of several options venues to which market participants may direct their order flow, and it represents a small percentage of the overall market. The proposed fee changes reflect a competitive pricing structure designed to incentivize market participants to direct their order flow, which the Exchange believes would enhance

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ Id.

¹⁸ 15 U.S.C. 78f(b)(4).

market quality to the benefit of all Members.

The Exchange believes the fee changes for SAM Contra Non-Customer, Non-Professional and SAM Agency Non-Customer, Non-Professional orders is consistent with Section 6(b)(4) of the Act in that the proposed fees are reasonable, equitable and not unfairly discriminatory. The Exchange believes that the proposed increase for SAM Non-Customer, Non-Professional Agency and Contra orders, is reasonable, equitable, and not unfairly discriminatory because the increase is modest and the Exchange believes the proposed fees will still encourage participation in SAM as the rate, even as amended, is equivalent to or better than most other price improvement auctions offered by other options exchanges as well as the Exchange itself.¹⁹ The Exchange believes the fees, as proposed, will continue to promote order flow through SAM and attract liquidity, which benefits all market participants by providing additional trading opportunities at improved prices. This, in turn, attracts increased large-order flow from liquidity providers which facilitates tighter spreads and potentially triggers a corresponding increase in order flow originating from other market participants.

The Exchange believes the proposed changes to the QCC Initiator/Solicitation Rebate Tiers are reasonable, equitable, and not unfairly discriminatory. The Exchange believes that increasing the rebates offered under Tiers 1 through 4 [sic] is reasonable because Members will be receiving higher rebates for meeting the criteria corresponding to each tier. Additionally, the Exchange believes the changes to the QCC Initiator/Solicitation Rebate Tiers are reasonable overall because, as stated above, in

¹⁹ See MIA Options Fee Schedule, Section 1(a)(v), “MIA Price Improvement Mechanism (“PRIME”) Fees, which provides for comparable rates for similar market participant type orders submitted into its PRIME auctions. For example, PRIME Customer Agency orders are free of charge; PRIME Agency orders for a Public Customer that is Not a Priority Customer, MIA Market Maker, Non-MIA Market Maker, Non-Member Broker-Dealer, and Firm are assessed a fee of \$0.30; PRIME Customer Contra-side orders are free of charge; PRIME Contra-side orders for a Public Customer that is Not a Priority Customer, MIA Market Maker, Non-MIA Market Maker, Non-Member Broker-Dealer, and Firm are assessed a fee of \$0.05. See also Box Options Fee Schedule, Section IV(C), which provides varying rates for similar market participant type orders submitted as a solicitation transaction.

order to operate in the highly competitive markets, the Exchange and its competing exchanges seek to offer similar pricing structures, including assessing comparable rates and offering multiple enhanced pricing opportunities for various types of orders. Thus, the Exchange believes the proposed changes are reasonable as they are generally aligned with and competitive with the amounts assessed for similar orders on other options exchanges.²⁰ Further, the Exchange believes the rebates, as modified, continue to serve as a reasonable means to encourage Members to increase their liquidity on the Exchange, particularly in connection with additional QCC and/or Solicitation Agency Order flow to the Exchange in order to benefit from the proposed enhanced rebates. The Exchange believes that incentivizing greater QCC Initiator and/or Solicitation order flow would provide more opportunities for participation in QCC trades or in the SAM Auction which increases opportunities for price improvement. The Exchange also believes that amending the rebates represents an equitable allocation of fees and is not unfairly discriminatory because they will continue to automatically and uniformly apply to all Members' respective qualifying orders.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, as discussed above, the Exchange believes that the proposed change would encourage the submission of additional order flow to a public exchange, thereby promoting market depth, execution incentives and enhanced execution opportunities for all Members.

The Exchange believes that the proposed rule change does not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the Exchange notes that the proposed changes apply uniformly

²⁰ See supra note 14.

to similarly situated Members. The Exchange believes that the proposed changes related to QCC transactions would not impose any burden on intramarket competition, but rather, serves to increase intramarket competition by incentivizing members to direct their QCC orders to the Exchange, in turn providing for more opportunities to compete at improved prices. Additionally, the proposed rule change benefits all market participants as any overall increased liquidity that may result from the proposed rebate incentives benefits all investors by offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection.

The Exchange also believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, as noted above, competing options exchanges have similar fees in place in connection with price improvement auctions.²¹ Further, the Exchange operates in a highly competitive market. Members have numerous alternative venues they may participate on and direct their order flow, including 15 other options exchanges. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single options exchange has more than 15% [sic] of the market share. Therefore, no exchange possesses significant pricing power in the execution of order flow. Indeed, participants can readily choose to send their orders to other exchanges if they deem fee levels at those other venues to be more favorable. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also,

²¹ See supra note 19.

recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.” The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’”. Accordingly, the Exchange does not believe its proposed fee change imposes any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²² and paragraph (f) of Rule 19b-4²³ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

²² 15 U.S.C. 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f).

Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-CboeEDGX-2023-038 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-CboeEDGX-2023-038. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal

office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-CboeEDGX-2023-038 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Sherry R. Haywood,

Assistant Secretary.

[FR Doc. 2023-12577 Filed: 6/12/2023 8:45 am; Publication Date: 6/13/2023]